

Fact sheet: Our approach to sustainable investing

Our sustainable funds aim to invest in companies that we assess as having a net positive contribution to the United Nations-backed Sustainable Development Goals (SDGs). The SDGs aim to tackle disadvantage and the most pressing environmental and social challenges. These include, amongst others, a focus on poverty and inequality, health, sustainable production and consumption, biodiversity, water, waste, and climate change. Companies can play a role to innovate, scale and deliver these solutions.

Features of our sustainable funds

Sustainability

- An investable universe of companies that can have a net positive alignment to one or more of the 17 United Nations Sustainable Development Goals (SDGs)

Exclusions

- Hard exclusions defined by a charter for activities that are incongruent with the SDGs.

Sustainable Compliance Committee

- Oversight and governance by a Sustainable Compliance Committee, which includes two external experts, to help ensure compliance with the fund's charter and approve the investable universe

Discipline and talent

- A disciplined and repeatable investment process finding high-quality businesses with strong earnings that are under appreciated by the market
- Talent: an established team of global portfolio managers each with significant industry experience

Aligned

- Alphinity is a boutique firm, strongly aligned with its clients' investment objectives and focused on growing clients' wealth over the long term

Each strategy has a Fund Charter in place which outlines the investment parameters of the fund, including a set of excluded activities and revenue thresholds. Both strategies have a Sustainable Compliance Committee in place to oversee governance, sustainable universe construction, and help inform company engagement. The committees include two external highly reputable independent experts and ensure the Funds stay true to their Charters.

Ultimately, stock selection for inclusion in the portfolio is made from the defined sustainable universe by the investment team applying the Alphinity investment process.

Defining sustainability using the Sustainable Development Goals

We use the SDGs as a framework for assessing a company's suitability for our domestic and global sustainable universes. The 17 SDGs have a universal application and aim to mobilise efforts to end all forms of poverty, improve health and education, reduce inequality, and spur innovation and economic growth, while managing climate change and working to preserve oceans and forests.

These goals were primarily developed for use by government, not-for-profit organisations, and industry bodies. However, given the holistic nature of the SDGs, we believe that they are a suitable framework to define sustainability in the context of investing.

- they are **globally recognised** and supported by governments, industry bodies, companies, and communities all around the world
- they cover **environmental and social themes**, with a focus on equality and reducing the potential impacts of climate change
- the framework includes a clear set of goals with **169 individual targets** to help assess a company's activities
- they can be **easily interpreted** to apply to activities, products, and services of listed equities.

We will continue to monitor any new regulatory standards that define 'sustainable' activities, such as the EU Taxonomy and the International Sustainability Standards Board. Although these remain in their infancy, we are aware that global sustainability standards are evolving and, where appropriate, will aim to integrate any relevant new developments into our sustainability considerations.

Methodology: SDG Analysis

1. Excluded activities

There are a number of activities we have determined to be incongruent with the SDGs, such as fossil fuel production, fossil fuel energy generation, alcohol and tobacco production and gambling. Companies exposed to these activities, subject to various materiality thresholds, are excluded during universe construction. A full list can be viewed in the Funds' Charters [here](#).

For activities that have an indirect link to any excluded activities, such as fossil fuel transport or alcohol sales, a specialised research framework guides the judgement of a company's suitability for the fund. For a company to be approved it must meet all inclusion requirements of the framework, as determined by the Sustainable Compliance Committee.

2. SDG analysis

We determine alignment with the SDGs based on a company's revenues from its products and services, rather than operational ESG practices. We align company revenues to the 169 targets that underpin the 17 SDGs as this provides greater insight and clarity to the intent of the goals, and therefore requires less interpretation. To reflect the strength of each segment's alignment with the various goals, we apply a materiality factor to the respective revenue stream.

Our SDG analysis completed using company disclosures (financial and ESG documents), insights gained through company engagement and independent research. To maintain consistency in this analysis we have developed sector assumptions to guide the SDG alignment process. Judgement is applied on a case-by-case basis because each company is unique and alignment in the same sector can vary.

Responsibility: The SDG analysis is completed by the internal ESG and Sustainability team in consultation with the respective investment analyst. The relevant Sustainable Compliance Committee maintains oversight of the SDG analysis and approves companies for inclusion in the sustainable universes. We seek annual limited assurance of the SDG data published in our Annual ESG and Sustainability report.

Update and review: Revenue data is updated at least annually, or when there is a material change (for example, as a result of mergers, acquisitions or divestiture). In FY22 we introduced a bi-annual review process with a member of the Sustainable Compliance Committee to ensure consistency across our SDG analysis and validates the SDG alignment against the sector assumptions.

3. Assessing ESG management practices

While we draw on analysis by ESG research providers and other external sources, the ESG and sustainability team conducts detailed ESG research in-house in partnership in conjunction with the respective investment analyst.

We assess a company's operational ESG management practices in line with the process described in our ESG policy and our annual ESG and Sustainability Report. The degree of risk (both threats and opportunities) related to ESG is considered on an ongoing basis, and where relevant can influence a decision to include or exclude a company from the sustainable funds' investible universes. These factors may also influence portfolio construction and overall investment decisions.

4. Approval from the relevant Sustainable Compliance Committee

The two Sustainable Compliance Committees are responsible for overseeing the SDG and ESG company analysis, and approving the domestic and global sustainable universes. Both committees include two Portfolio Managers and the same two external experts (see page 4).

Elaine Prior and Melissa Stewart both have extensive expertise in ESG, sustainability and human rights. Along with their role to approve the sustainable universes, they also provide ongoing advice on company engagement priorities, industry

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Global Sustainable Equity Fund & Australian Sustainable Share Fund

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trends, global policy changes, and key issues worthy of further research and explorations.

The Committees are supported by the ESG and Sustainability team, who chair the committee meetings and provide research and inputs to assist the committee in their discussions.

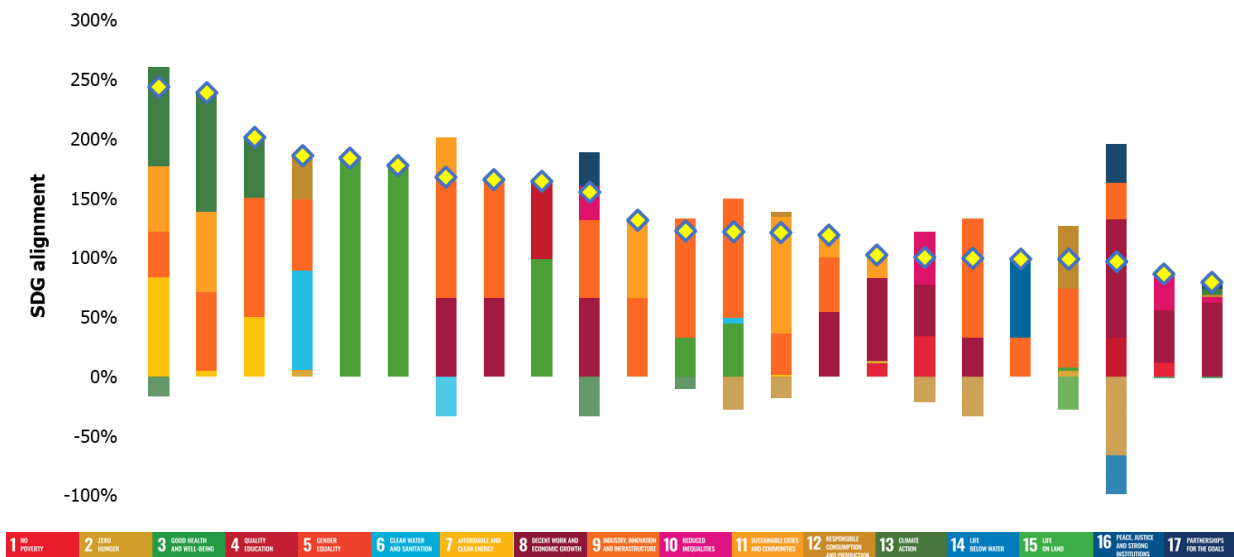
5. Construct a balanced Alphinity portfolio

Once companies have been approved by the respective Sustainable Compliance Committee for universe inclusion, we apply the same disciplined investment philosophy of all other Alphinity funds: looking for companies with earnings leadership. All companies in the portfolios will have a net positive SDG alignment and strong ESG practices.

Worked example: SDG analysis of a mining company

FY22 revenue %			SDG alignment						
			SDG	SDG target	Materiality	Score	Result	Comment	
Company segments	Copper	20%	+	7 AFFORDABLE AND CLEAN ENERGY	7.3 Improve energy efficiency	Low	20% x 33% = 7%	7% + 20% + 13% = 40% Positive	Copper is a necessity in electrification, critical in our increasingly digital world for electric vehicles, wind and solar power as well as the infrastructure that transports and stores green energy.
				9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.1 Develop quality, reliable, sustainable and resilient infrastructure	High	20% x 100% = 20%		
				11 SUSTAINABLE CITIES AND COMMUNITIES	11.3 Enhance inclusive and sustainable urbanization	Medium	20% x 66% = 13%		
	Nickel	75%	+	7 AFFORDABLE AND CLEAN ENERGY	7.2 Increase the share of renewable energy in the global energy mix	Low	75% x 33% = 25%	25% + 75% = 100% Positive	Nickel is a key component of Lithium-ion batteries, steel alloys and energy storage systems used for renewable energy resources.
				9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.1 Develop quality, reliable, sustainable and resilient infrastructure	High	75% x 100% = 75%		
	Lithium	5%	+	7 AFFORDABLE AND CLEAN ENERGY	7.2 Increase the share of renewable energy in the global energy mix	High	5% x 100% = 5%	5% + 3% = 8% Positive	Lithium is critical in the global energy transition, used to electrify industrial processes, transport and other technological developments.
				9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.1 Develop quality, reliable, sustainable and resilient infrastructure	Medium	5% x 66% = 3%		
	All	100%	-	13 CLIMATE ACTION	13.1 Strengthen resilience and adaptive capacity to climate-related hazards	Low	100% x -33% = -33%	-33% - 33% = -66% Negative	Mining and processing lithium, nickel and copper is emissions intensive. Mining uses significant amounts of water in processing.
				6 CLEAN WATER AND SANITATION	6.4 Increase water-use efficiency across all sectors	Low	100% x -33% = -33%		
	Net positive SDG Score:							40% + 100% + 8% - 66% = 82%	

Example portfolio: All portfolio companies have a net positive SDG score



Sustainable Compliance Committee

Australian Sustainable Share Fund Compliance Committee

Global Sustainable Equity Fund Compliance Committee

Australian Portfolio Managers	Independent experts	Global Portfolio Managers
 Bruce Smith Principal, Portfolio Manager	 Elaine Prior ESG expert	 Mary Manning Global Portfolio Manager
 Stephane Andre Principal, Portfolio Manager	 Melissa Stewart Human rights expert	 Jeff Thomson Global Portfolio Manager

Supported by the ESG and Sustainability team

Alphinity ESG and Sustainability team
 Jessica and Moana support the committees by providing research, structuring agendas, and tracking actions and outcomes.

 Jessica Cairns ESG & Sustainability Manager	 Moana Nottage ESG & Sustainability Analyst
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Elaine Prior, ESG expert

Elaine retired in 2017 from Citi Research in Sydney where she was a Managing Director covering ESG and Sustainability research for Citi's fund manager and superannuation fund clients. An award-winning ESG pioneer, she researched sustainability issues on ASX listed companies to help clients assess valuation impacts or risks, or to engage with companies to encourage risk mitigation or broader positive change. With Elaine at the helm, Citi was awarded 'Best Broking Firm' title by ESG Research Australia every year for eight years between 2009 and 2016.

Elaine held roles in investment research and funds management for 20 years prior to joining Citi in 2007, primarily focused on the resources sector, and was the top-rated BHP analyst in the Australian market for several years.

Elaine has degrees in Chemistry, Petroleum Engineering and Antarctic Studies and, before working in the markets, was an oil industry engineer in the UK North Sea and Australia. She also worked on environmental projects for Antarctic and Arctic tourism.



Melissa Stewart, Human rights expert

Melissa joined the Alphinity SSF Compliance Committee in September 2020. She is a recognised industry expert in modern slavery and human rights, and for more than 20 years has held senior advisory roles and full-time positions globally with the United Nations, Australian and international Governments, ASX-listed companies, and not-for-profits including World Vision Australia.

As a qualified lawyer with advanced degrees and practice in human rights law and international development, Melissa previously advised governments in Australia and globally on the legislative and policy response to modern slavery, and on business and human rights. She also has extensive experience in the private sector advising on responsible operations, investments, and supply chains. Most recently, Melissa worked with Australian insurance company IAG as a senior expert in the Office of the CFO advising relevant business units including legal, capital markets, M&A, risk, human resources, and group procurement.

Melissa has a BA in International Development studies and an LLB from the University of British Columbia. Before entering the advisory space, she worked as a corporate lawyer in Canada and Thailand.

Disclaimer:

This material has been prepared by Alphinity Investment Management (ABN 12 140 833 709 AFSL 356895) (Alphinity), the investment manager of the Alphinity Australian Share Fund, Alphinity Concentrated Australian Share Fund, Alphinity Sustainable Share Fund, Alphinity Global Equity Fund and Alphinity Global Sustainable Equity Fund (Funds).

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